

VZCZCXYZ0000
PP RUEHWEB

DE RUEHKB #0292/01 0880904
ZNY CCCCC ZZH
P 280904Z MAR 08
FM AMEMBASSY BAKU
TO SECSTATE WASHDC PRIORITY 5059

C O N F I D E N T I A L BAKU 000292

SIPDIS

SIPDIS

DEPARTMENT - E PLEASE PASS TO E ROBERT WINCHESTER, EUR/ERA
MATT BEH

E.O. 12958: DECL: 03/24/2018
TAGS: [PREL](#) [PGOV](#) [OVIP](#) [AJ](#) [ENRG](#)
SUBJECT: REQUEST FOR U/S JEFFREY TO VISIT BAKU IN
CONJUNCTION WITH CASPIAN OIL AND GAS SHOW

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

¶1. (U) This is an action request. See Paragraph 2.

¶2. (U) Embassy Baku requests that Under Secretary for Economic, Energy and Agricultural Affairs Reuben Jeffery III consider visiting Azerbaijan June 3-4, in conjunction with the June 3-6 International Caspian Oil and Gas Exhibition and Conference (COGS). Given Under Secretary Jeffery's recent appointment as the Department's Coordinator for International Energy Affairs, a visit to Azerbaijan at this time would send a strong signal of U.S. support for new Caspian energy initiatives. U/S Jeffery would have the opportunity to make a high-profile, keynote address outlining regional U.S. energy strategy and could also lead a meeting of our new, high-level bilateral "Energy Diplomacy Dialogue" as outlined in the U.S.-Azerbaijan Energy MOU, signed by the Secretary and Foreign Minister Mammadyarov in March 2007.

¶3. (U) Energy-producing Azerbaijan is a key U.S. ally in regional energy issues. Working together for over a decade, we have helped secure Azerbaijan's independence and enhance global energy security through our collaboration on the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the South Caucasus gas pipeline (SCP). Azerbaijan is now a significant non-OPEC oil exporter and non-Gazprom gas producer, and the success of its BTC and SCP pipelines have served as regional models showing how countries of the region, in partnership with International Oil Companies, can use their mineral wealth to further their independence and prosperity.

¶4. (C) Azerbaijani is now embarking on an important, second phase of its energy sector development, focused on the export of significant amounts of GOAJ gas to Europe and the transit of Kazakh oil and Turkmen gas through Azerbaijan to Europe. In this light, U/S Jeffery's trip to Baku would help the USG in its efforts to encourage our key regional ally Azerbaijan to:

- develop its gas resources to support European energy diversity;
- come to a gas transit agreement with Turkey that will facilitate the transit of Caspian gas through Europe;
- strengthen bilateral ties with Turkmenistan, to include working on offshore energy development;
- ensure that rent-seeking activities do not hinder the westward transit of Kazakh oil volumes through Azerbaijan.

¶5. (SBU) GAS DEVELOPMENT: Azerbaijan has significant gas reserves and the GOAJ has repeatedly stated its intention to export (to quote President Aliyev) "as much gas as it can as

quickly as it can" to Europe, for strategic as much as commercial reasons. Azerbaijan's Shah Deniz mega-field already supplies small amounts to Greece, in addition to larger amounts to Turkey and Georgia. Second phase Shah Deniz production, scheduled to start in late 2013, could provide approximately five to nine billion cubic meters annually (bcm/a) to either the Turkey-Greece-Italy (TGI) or Nabucco pipeline project, both of which will help to decrease European gas reliance on Gazprom. However, although Azerbaijan does have significant gas reserves and could export more than 20 bcm/a to Europe for many years, it is lagging in its efforts to expeditiously develop its offshore fields. Due to the long time lines involved with gas production, if substantial amounts of GOAJ gas are to heading to Europe by the 2018 time-frame, Azerbaijan needs to start moving to develop its reserves now.

¶6. (C) GAS TRANSIT WITH TURKEY: Azerbaijan's commercial negotiations with European potential customers for Shah Deniz Phase Two gas have been held up by an inability to agree with Turkey over terms of gas transit. Turkey has sought to establish a mechanism by which a percentage of all transiting gas is optioned for purchase by Turkey at sub-market prices. Both upstream producers and downstream consumers have resisted this option, saying sales agreements must be separate from transit issues. Westward transit of Caspian gas to Europe through Turkey depends on finding a solution to gas transit that meets both Turkey's desire for additional gas volumes at a politically palpable price and producers' and consumers' desires for a fair and transparent tariff regime through Turkey.

¶7. (C) TURKMEN ENERGY COOPERATION: Since the December 2006 death of Turkmen President Niyazov, the GOAJ has reached out to new Turkmen President Berdimuhamedov. This outreach, as exemplified by the GOAJ's March 2008 agreement to resolve

outstanding bilateral debt issues, has created the possibility of offshore cooperation in bilateral energy development even absent agreement on Caspian delimitation. This bilateral energy cooperation and resultant westward transport of GOTX gas through Azerbaijan would be a significant success in our regional energy policy.

¶8. (C) KAZAKH OIL TRANSIT: Oil volumes from the Tengiz oil field in Kazakhstan are scheduled to begin being transported through Azerbaijan in significant volumes in mid-2008. These volumes and the shipping, pipeline and rail routes they establish will lead the way for future, more significant volumes from the Kashagan field. However, the monopolistic, rent-seeking activities of government-affiliated entities in both Azerbaijan and Kazakhstan are threatening the commercial viability of this Southern Corridor for oil, with the risk of Kazakh oil being routed instead through either Iran or Russia.

¶9. (C) U/S Jeffery's visit would be instrumental in forwarding our energy agenda with the GOAJ at a time when Azerbaijan begins to enter a stage of energy development that will be crucial for regional USG energy goals. Additionally, having a senior level figure deliver our message in a key capital and at a key moment to a very wide international energy audience (through press coverage of COGS opening) at the Exhibition itself will also be of great benefit.

¶10. (U) We appreciate U/S Jeffrey,s consideration of this request.
DERSE